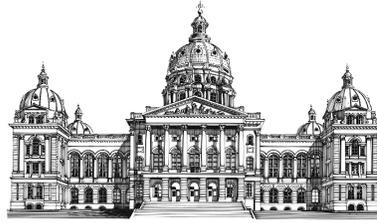

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Statewide Indirect Cost Allocation Plan

ISSUE

To provide background information on the Statewide Indirect Cost Allocation Plan.

AFFECTED AGENCIES

State Agencies which receive non-General Funds.

CODE AUTHORITY

Section 421.17(33)(a), Code of Iowa

BACKGROUND

The costs of operating any program include direct program costs attributable to the program and the indirect costs allocated to the program. This *Issue Review* considers the procedure for allocation of indirect costs.

A program may incur indirect costs in more than one agency. The agency responsible for a program incurs indirect costs for services performed in support of the program, such as accounting staff costs. Additional costs to support programs are incurred by central agencies. These costs, including utilities and data processing, are also indirect costs of operating programs.

For example, office space and maintenance costs incurred by the Department of General Services on behalf of the Department of Human Services would be an indirect cost of operating the federal Medical Assistance Program and Aid to Families with Dependent Children Program.

The U.S. Office of Management and Budget has established procedures to allow states to recover direct and indirect costs from federal programs. States wishing to claim indirect costs as charges against federal programs are required to prepare an annual Statewide Cost Allocation Plan and to submit the plan to a designated federal agency for approval.

During the 1991 Legislative Session, the Iowa General Assembly passed SF 529 which required the Director of the Department of Revenue and Finance to develop a Statewide Indirect Cost Allocation Plan to bill all non-General Fund sources, such as the federal

government or the Road Use Tax Fund, for indirect costs previously paid for by the General Fund. Dollars recovered for indirect costs are transferred to the General Fund and do not remain at the departmental level.

Per the guidelines established by the U.S. Office of Management and Budget, costs of general government, such as investment management, are not allowable for recovery by states' indirect cost allocation plans. However, the Department of Revenue and Finance has expanded the Statewide Indirect Cost Allocation Plan to allow non-General Fund, non-federal programs to be billed for additional State central services. For example, the Iowa Public Employees Retirement Program may be billed for budget services performed by the Department of Management.

CURRENT SITUATION

The federal government has designated the services which are eligible for indirect cost recovery. Allowable services include building space costs, preaudit and payroll services, warrant redemption and cash receipting, and records management.

As expanded, the Statewide Indirect Cost Allocation Plan incorporates additional services for indirect cost recovery. Although the federal government cannot be assessed, these additional services are assessed to other non-General Fund programs, such as the Road Use Tax Fund and the Iowa Public Employees Retirement System Fund. The additional services include accounting services, budget services, radio communications, and investment management.

The procedure for recouping indirect costs is coordinated by the Department of Revenue and Finance. The Department informs agencies of expenses associated with central services performed on behalf of the agency. Each agency then allocates the indirect costs to various funding sources based on the funding mix of the agency and notifies the Department of Revenue and Finance of the allocation. If the Department concurs that the estimate is reasonable, the amount agreed to will be recovered from various funds and placed into the General Fund through transfers.

As an example, assume the Department of Revenue and Finance identified \$100 of central services performed on behalf of an agency. If the agency's funding mix were 70.0% General Fund and 30.0% Other Funds, \$30 would be recoverable for indirect costs.

BUDGET IMPACT

The following table indicates the amount recouped for indirect costs during FY 1994. Of the amount recovered, \$76,215 was from the Iowa Public Employees Retirement System Fund, \$635,013 was from the Primary Road Fund, and \$86,593 was from the Road Use Tax Fund. The remaining indirect costs were recouped from federal programs.

FY 1994 Indirect Costs Recouped by Agency

<u>Agency</u>	FY 1994 Indirect Costs Recouped	<u>Agency</u>	FY 1994 Indirect Costs Recouped
Agriculture	\$ 51,037	Vocational Rehabilitation	\$ 66,500
Attorney General	10,612	Employment Services	172,918
Auditor	0	Public Health	26,287
Blind Commission	47,891	Human Rights	68,416
Campaign Finance Disclosure Commission	0	Human Services	771,960
Civil Rights	0	Inspections and Appeals	4,177
Commerce	1,423	Law Enforcement Academy	0
Commerce - Alcoholic Beverages	0	Management	900
Commerce - Banking	24,968	Natural Resources	402,823
Commerce - Credit Union	6,873	Office of State-Federal Relations	13
Commerce- Insurance	120,147	Substance Abuse	7,317
Commerce - Professional Licensure	20,572	Parole Board	0
Commerce - Utilities	62,803	Personnel	609
Corrections	0	Iowa Public Employees Retirement System	76,215
Cultural Affairs	8,486	Public Employment Relations Board	0
Dept. of Education - Iowa Public Television	6,179	Public Safety	221,456
Defense - Disaster Services	52,206	Regents	NA
Economic Development	NA	Revenue and Finance	42,974
Economic Development - Finance Authority	12,967	Lottery	35,070
Education	76,562	Secretary of State	0
Elder Affairs	39,303	Treasurer of State	488
College Student Aid Commission	29,306	Transportation	721,606
		TOTAL	\$3,191,064

NA = Never approved as presented.

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